

LEGISLATIVE UPDATE

HOUSE COMMITTEE ON THE BUDGET
Majority Caucus

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H.R. 586 – TAX RELIEF GUARANTEE ACT OF 2002

Summary: This update reflects recent revisions in the amendment to be offered to the Senate amendment to H.R. 586. As a result of these revisions, the bill is now consistent with the House-passed budget resolution for fiscal year 2003 (H.Con.Res. 353).

This bill makes permanent the tax reduction measures enacted last year under the Economic Growth and Tax Relief Reconciliation Act [EGTRRA] of 2001. It removes the various sunsets in the tax code that apply to EGTRRA provisions. The sunsets were included in the original bill to accommodate a budgetary rule in the Senate (see further discussion below).

The bill includes a variety of protections for taxpayers, and changes in the way the Internal Revenue Service [IRS] operates. For example, it would revise certain collection procedures, such as those requiring the review of installment agreements for partial collection at least once every 2 years. It revises tax administration provisions to provide for the termination of an IRS employee upon a final administrative or judicial determination of misconduct.

In addition, the bill accelerates the effective date for expansion of the adoption tax credit and adoption assistance programs included in EGTRRA. It also makes miscellaneous and technical changes to the tax code.

As noted above, the current sunsets of EGTRRA provisions were included because of a Senate rule. Those rules prohibit reconciliation bills that “lose” revenue (compared with a baseline estimate) after the period covered by the budget resolution. Last year’s budget resolution covered 10 years. Therefore, to comply with the Senate rule, the Ways and

Means Committee was forced to include provisions sunseting the various EGTRRA tax cuts after 10 years.

For example, under EGTRRA, the amount exempt from taxation upon the death of the taxpayer rises until 2010, when it is entirely eliminated. But the Senate-required sunset forces the entire “death tax” to be reinstated as if EGTRRA had never been enacted. The same is true for provisions such as the reduction in tax rates, marriage tax penalty relief, and the increase in the child tax credit.

These and other tax relief measures included in EGTRRA would be automatically repealed under current law – effectively causing a sudden tax increase for individual taxpayers without further congressional action. The Tax Relief Guarantee Act eliminates these automatic increases.

Budget Impact of the Legislation: The Joint Committee on Taxation estimates the bill will cause a revenue reduction, compared with current estimates, of \$9 billion in fiscal years 2003-2007. Most of the revenue loss results from the gift tax. When death tax relief is made permanent, some individuals may postpone transferring assets that would be subject to the gift tax, expecting to reduce their tax liability once the death tax has been fully eliminated.

Legislation Compared With the Budget Resolution: Although the bill would give rise to various points of order under the budget resolution currently in force, it would not do so under the fiscal year 2003 budget resolution (H.Con.Res. 353), which passed the House on 20 March 2002. There is no conference agreement on the budget, because the Senate has yet to pass, or even schedule, a vote on the budget resolution. In addition, the House has yet to

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adopt a so-called “deeming” resolution, which would provide for enforcing the spending guidelines of the House-passed budget resolution until adoption of a conference report.

Were H.Con.Res. 353 in force – either through a budget resolution conference report, or a “deeming” resolution, as described above – the Tax Relief Guarantee Act would not be in violation of section 311 of the Congressional Budget Act. This section prohibits legislation reducing revenue below the level provided for in the budget resolution. H.Con.Res. 353 allowed for a \$28-billion revenue reduction

over 5 years. The \$9-billion revenue reduction in H.R. 586 is far below that level.

Compliance With the Budget Act: Though certain other technical Budget Act points of order may apply, the most substantive violation of the Budget Act, section 311, would not apply were a conference report on H.Con.Res. 353 to have been reached with similar revenue levels. The point of order also would not apply had H.Con.Res. 353 been placed in force through a “deeming” resolution to apply budget discipline to measures considered on the House floor.

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